

Message Text

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64

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 EB-11 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 IO-14 DRC-01

/183 W

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R 211614Z NOV 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4931

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS UNN

C O N F I D E N T I A L PARIS 30004

E.O. 11652: GDS

TAG: EFIN, FR, EEC

SUBJECT: TWO-TIER GOLD SYSTEM

REF: 227277

1. IN A CONVERSATION WITH ECON MIN, FREYCHE, ECONOMIC AND FINANCIAL ADVISOR TO PRESIDENT POMPIDOU, SAID GOF FULLY UNDERSTANDS OUR VIEWS ON PURCHASES OF GOLD BY CENTRAL BANKS AT A PRICE ABOVE THE MONETARY PRICE. FREYCHE SAID THAT, ALTHOUGH THERE ARE PRESSING TECHNICAL REASONS WHY THE CENTRAL BANKS OF THE EC MIGHT WANT TO BUY AND SELL GOLD AMONG THEMSELVES AT A PRICE ABOVE THE MONETARY PRICE, THE GOF AS WELL AS ITS EC PARTNERS WERE VERY RELUCTANT TO DO THIS, PRIMARLY BECAUSE THEY

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HAD NO DESIRE TO TAKE A STEP WHICH MIGHT BE INTERPRETED AS AN

ATTEMPT TO CREATE A MONETARY BLOCK IN OPPOSITION TO ORRIVALRY WITH THE U.S. IN OTHER WORDS, HE SAID, FRANCE WAS HOLDING BACK FROM SUCH A DECISION BECAUSE OF A DESIRE TO DEMONSTRATE GOODWILL TOWARD THE U.S. NONETHELESS, HE CONTINUED, THE EC MIGHT EVENTUALLY BE FORCED TOTAKE THIS STEP. SIXTY-FIVE PERCENT OF ITALY'S RESERVES AND 40 PERCENT OF FRANCE'S WERE IN GOLD. IT WAS WELL KNOWN THAT NEITHER ITALY NOR FRANCE WAS WILLING TO PART WITH ANY OF THIS GOLD AT THE MONETARY PRICE WHEN THISPRICE WAS SO MUCH LOWER THAN THE FREE MARKET PRICE. THUS, A LARGE PART OF THE RESERVES OF THESE TWO COUNTRIES WAS IN EFFECT FROZEN ANDCOULD NOT BE USED IN THE SETTLEMENTS AMONG THE "SNAKE" COUNTRIES REQUIRED TO MAINTAINTHE SNAKE. THIS, OF COURSE, WAS ONE OF THE REASONS WHY ITALY HAD SO FAR BEEN UNWILLING TO ENTER THE SNAKE. IF THIS PROBLEM BECAME SERIOUS ENOUGH SO THAT THE EUROPEAN CENTRAL BANKS FELT OBLIGED TO BEGIN EXCHANGINGGOLD AMONG THEMSELVES AT A PRICE ABOVE THE MONETARY PRICE, FREYCHE SAID THAT THIS DECISION WOULD NOT BE TAKEN WITHOUT FULL PRIOR CONSULTATION WITH THE U.S. AUTHORITIES. HE ALSO SAID THAT EXCHANGES OF GOLD AT SUCH A PRICE WOULD BE RESTRICTED TO EC CENTRAL BANKS AND IT WAS POSSIBLE THAT THE PRICE AT WHICH THESE TRANSACTIONS WOULD BE CARRIED OUT WOULD BE KEPT SECRET.

2. COMMENT: FREYCHE'S CONCILIATORY ATTITUDE ON THIS MATTER IS WELCOME. NONETHELESS, WE BELIEVE, PARTICULARLY IN VIEW OF THE MANY PUBLIC STATEMENTS BY SENIOR FRENCH OFFICIALS ON RIGHT TO BUY AS WELL AS SELL GOLDAT MARKET PRICE, THAT FRANCE'S OBJECTIVE CONTINUES TO BE PRESERVATION OF SIGNIFICANT ROLE FOR GOLD IN MONETARY SYSTEM AND, IN THAT PERSPECTIVE, TO OBTAIN AGREEMENT WITH EUROPEAN PARTNERS TO SE GOLD IN INTRA-EUROPEAN SETTLEMENTS AT VALUE NEAR TO MARKET PRICE. THIS BEING THE CASE, FREYCHE'S ASSURANCE NO SUCH DECISION WOULD BE REACHED WITHOUT PRIOR CONSULTATION WITH U.S. IS IMPORTANTAND USEFUL.
IRWIN

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